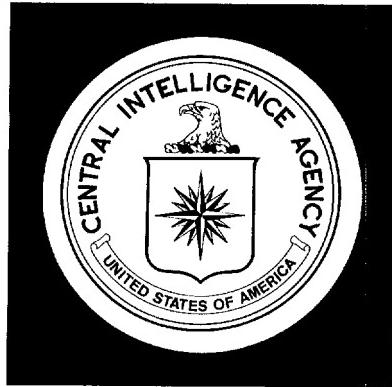


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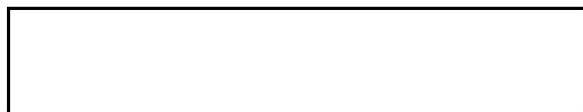
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LAOS: Both sides have been reacting nervously to coup rumors, although there is no hard evidence that serious plotting is under way.

The Pathet Lao have charged publicly that Vientiane "ultrarightists," in collusion with Thai and South Vietnamese "reactionaries," intend to sabotage the peace agreement.

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Late last month Prime Minister Souvanna put government forces in Vientiane on alert, following reports that the rightist Sananikone clan was bent on serious troublemaking. More recently, rightist reassurances seem to have calmed Souvanna's fears. In a discussion with the US ambassador last week, the Prime Minister seemed relaxed and less impatient with the slow progress registered to date on the political front.

Nonetheless, Souvanna may still encounter considerable difficulty within his own ranks in reaching agreement on a new government. The rightists remain apprehensive over the influx of Pathet Lao security forces into Vientiane and Luang Prabang. More importantly, they are again voicing serious concern that Souvanna is prepared to sell out their political and economic interests if necessary to gain Lao Communist agreement on a new coalition.

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SOUTH KOREA: President Pak has met the mounting demands for changes in the present constitution by issuing emergency decrees making further protest subject to court martial and imprisonment. This is Pak's first direct move to curb calls for basic political reforms which in effect would undermine the authoritarian nature of his regime.

Pak's action was prompted in part by a well-publicized reform petition for which 30 prominent citizens collected 1 million signatures, as well as by recent critical statements by senior politicians. It also reflects the President's frustration over his failure to mollify critics, despite conciliatory gestures and appeals for popular support. [redacted]

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In issuing these decrees, Pak is gambling that the threat of harsh government repression will be enough to silence his critics. Similar emergency measures in 1971 and the martial law decree in 1972 effectively halted open opposition. Today, however, Pak's opponents are better organized and are more determined to press their case. Most politicians will probably find it prudent to hold their peace, but militant Christians, students, and intellectuals may view the President's action as a challenge which cannot go unanswered, and a potentially serious confrontation could result. [redacted]

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EC-IRAN: The talks which open next week on a new nonpreferential trade agreement between the EC and Iran are expected to be broadened to include the question of exchanging petroleum for technological aid and assistance.

These will be the first discussions between the EC and a Middle East oil producer since the oil crisis. The EC Commission is aware that the outcome may set a pattern for possible future arrangements with other countries in the area. In view of the efforts of some EC member states to strike bilateral deals with oil-producing states, however, it seems unlikely that the Commission will be able to obtain a mandate to negotiate for the community as a whole on oil problems.

Commission sources have reported that the EC would like to see the discussions with Iran follow the general lines developed in the recent negotiations with India. The EC would prefer a general "cooperation agreement" that holds out the possibility of joint action in a number of fields under the aegis of an EC-Iran commission. Iran is reported to have been unenthusiastic when approached informally by the EC, preferring more specific commitments than those obtained by India.

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ECUADOR: The military government's announcement that it intends to acquire a 25-percent interest in the Texaco-Gulf consortium this year may be the first in a series of moves to increase Ecuador's control of its petroleum industry.

Under the agreement signed with Texaco-Gulf last August, the government has the option to purchase a 25-percent interest in 1977. Publicly, the government offered as the reason for accelerating the purchase the recommendation by OPEC that member states gain greater control of foreign oil companies operating in their countries. It also wants to take advantage of rising world oil prices and increased interest in Ecuadorean oil by countries other than the US. In addition, some military officers are concerned that the country will become dependent on US oil companies for all aspects of oil production.

Japan, in addition to having been awarded a contract to build a \$90-million refinery in Ecuador by 1976, is attempting to arrange long-term trade agreements with Quito under which Tokyo would receive crude oil in exchange for manufactured and agricultural goods. One reason Ecuador has not signed such an agreement is that it currently has no uncommitted oil at its disposal.

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current pro-
duction by Texaco-Gulf has averaged 220,000 barrels per day and the government would like to increase this by the end of 1975. In addition, it does not want to upset plans by other US firms in Ecuador to enter the production stage later this year.

Buying into US companies would, however, give Ecuador the control necessary to take advantage of offers for oil by buyers in Japan, Western Europe, and Latin America.

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WEST GERMANY: In the competition between the Social Democrats and the Free Democrats over a successor to Foreign Minister Scheel, the prospects that the Free Democrats will retain the post have improved.

The interior minister in Chancellor Brandt's coalition government, Hans-Dietrich Genscher, who is expected to become chairman of the Free Democratic Party if Scheel assumes the federal presidency next spring, now appears to have the inside track for taking over the Foreign Ministry. If this occurs, Genscher will continue the precedent set by Scheel of combining the posts of party chairman, foreign minister, and vice chancellor. The coalition partners will meet later this month for the first time to consider cabinet changes.

Genscher's prospects have been strengthened by the united front put up by the Free Democratic Party. An indication of a weakening in the Social Democrats' resolve on this issue is the about-face made recently by Heinz Kuehn, deputy chairman of the Social Democratic Party and minister-president of North Rhine-Westphalia. Kuehn has admitted publicly that Brandt was displeased with Kuehn's earlier statements predicting Finance Minister Schmidt's appointment as foreign minister. Kuehn now says that he assumes Genscher will succeed Scheel as both foreign minister and vice chancellor.

Kuehn's position appears to reflect a growing recognition among Social Democratic leaders that the already strained relationship between the coalition partners would suffer further if the Foreign Ministry were denied to the Free Democrats. If this view is accepted by other Social Democratic leaders, it will represent a significant shift in attitudes and suggest that the Social Democrats are prepared to give precedence to preserving the coalition rather than to advancing partisan interests.

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JAPAN: Tokyo is cutting back procurement of several new weapons systems as part of its overall policy of restraint on spending in the 1974 budget. The cuts, which were announced in late December, affect all three services and place in jeopardy the completion of Japan's arms build-up within the framework of the current five-year plan. The government decided that appropriations for equipment and facilities in next year's budget would be held to this year's level.

Several key programs in the current defense plan are involved. The air force's request for an initial group of 22 FS-T2 ground-support fighter aircraft has been postponed until fiscal 1975. The army's plan for an order of 160 new medium tanks this year has been cut to 40. The navy's order for a helicopter-carrying destroyer has been postponed, thereby slowing the shipbuilding program under the current plan.

Despite the cuts, the announced defense budget for 1974 will still exceed the 1 trillion yen mark (US \$3.3 billion) for the first time. Most of the increase, however, is simply to meet higher personnel costs and inflation. [redacted]

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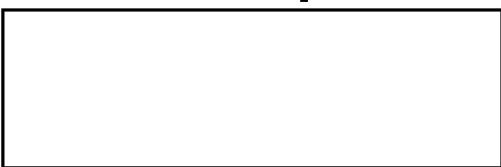
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